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Seizing Opportunities



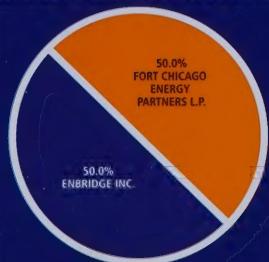
Fort Chicago Energy Partners L.P. was formed in 1997 to hold a 26 percent interest in the Alliance Pipeline and the Aux Sable Plant. In 2002 and early 2003, it increased that ownership interest to 50 percent of the Alliance Pipeline and 42.7 percent of the Aux Sable Plant. We intend to maximize value for holders of our Class A Units by identifying and analyzing opportunities with the goal of increasing the cash available for distribution to holders of Class A Units in both the short and long terms.

Fort Chicago's two investments, the Alliance Pipeline and the Aux Sable Plant, are long-term assets designed to provide returns for their owners for 40+ years. Both assets have been in operation approximately two years and are an important part of the North American energy supply chain. The Alliance Pipeline is fully contracted for an initial 15-year term with 33 shippers. The assets can be expanded to accommodate growing volumes of natural gas and natural gas liquids. In 2002 and early 2003, Fort Chicago seized the opportunity and cost-effectively increased its ownership interest in these important assets.

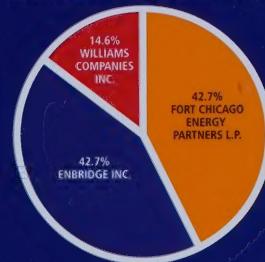
ORIGINAL ALLIANCE/AUX SABLE



ALLIANCE PIPELINE POST ACQUISITIONS



AUX SABLE POST ACQUISITIONS



We are pleased to report on the operations of Fort Chicago in 2002. The year was full of many extremes, from the successful completion of two significant acquisitions, the stable operation of our Alliance Pipeline investment, the continued volatility and disappointment with the Aux Sable investment.

The Alliance Pipeline

The Alliance Pipeline continues to provide the stable financial results that we expect from our investment. Although some operational issues with the compressors were experienced during 2002, financial returns to the Alliance owners, including Fort Chicago, were not impacted as Alliance was able to meet its throughput obligation of 1.325 billion cubic feet per day throughout the year.

In respect of 2002, Alliance was able to return approximately Canadian \$116.5 million and U.S. \$67.0 million to its owners, including Fort Chicago. These amounts were reduced by Canadian \$16.2 million and U.S. \$4.6 million for capital expenditures. We anticipate that distributions of approximately Canadian \$130 million and U.S. \$72 million (prior to amounts withheld for capital expenditure purposes) will be paid by Alliance to its owners in respect of 2003 operations.

Alliance Canada Marketing

During 2002, the basin differential between Alberta and Chicago (i.e. the difference in the selling price of natural gas in Chicago and the cost to purchase gas in Alberta) widened significantly over the prior years and for over half the year exceeded the transportation tariff on the Alliance Pipeline.

As a result, the Alliance Pipeline added significant value to its shippers over the alternative of selling their natural gas in the Alberta spot market. Alliance Canada Marketing also benefited from this improvement and, as a result, support payments from Fort Chicago to Alliance Canada Marketing were reduced from \$2.3 million in 2001 to \$1.8 million in 2002. At this time, we anticipate that Alliance Canada Marketing will not require any support until late in the second quarter of 2003.

The Aux Sable Plant

Operations at Aux Sable continued to be disappointing during the year. During the first half of 2002, extraction margins for propane and ethane were depressed as a result of excess inventories. The situation for propane improved during the third quarter and more "normal" margins were experienced on propane, butane and condensate during the second half of the year. The ethane extraction margin, however, did not improve in the second half of the year. During this period, ethane was only extracted when it was profitable or to satisfy the minimum weekly delivery quantities specified in our supply contract. The ethane extraction margin is not expected to recover to "normal" levels until the general economy in the United States improves or a significant reduction in the price of natural gas occurs.

During early 2003, we again experienced a significant increase in natural gas prices that has resulted in the deterioration of the natural gas liquids extraction margins. It is impossible to predict how long this difficult time for Aux Sable will continue. Fort Chicago, together with the other owners, may be required to support the Aux Sable operation in 2003 until positive margins are re-established.

Our Acquisition Activities

During the year, the financial situation of many companies in the pipeline and marketing industries deteriorated. As a result, a large number of assets were made available for sale including the ownership interests of The Williams Companies Inc. and El Paso Corporation in the Alliance Pipeline.

We were jointly successful with Enbridge in acquiring the interests of Williams and El Paso in the Alliance Pipeline in late 2002. In addition, Enbridge and Fort Chicago purchased the interest of El Paso in Aux Sable and Alliance Canada Marketing. On March 20, 2003, we announced that the Partnership and Enbridge had each agreed to acquire 50 percent of the interest in the Alliance Pipeline, Aux Sable and Alliance Canada Marketing held by Duke Energy Corporation for approximately \$184 million each. These acquisitions are expected to close in early April 2003. After these acquisitions, including a deferred purchase arrangement on 1.1 percent of the Alliance U.S. Pipeline that will close late in the fourth quarter of 2003, the Alliance entities will be owned as follows:

	Alliance Pipeline	Aux Sable/ Alliance Canada Marketing
Fort Chicago Energy Partners L.P.	50.0%	42.7%
Enbridge Inc.	50.0%	42.7%
Williams Companies Inc.	—	14.6%
	100.0%	100.0%

To finance the acquisition from Duke, the Partnership has received a commitment from a Canadian chartered bank for an underwritten acquisition bridge credit facility of \$160 million and will utilize \$30 million remaining in its existing bridge credit facility. This new bridge credit facility will mature in March 2004.

The Partnership was active in analyzing various other acquisition opportunities to determine whether they met our business investment criteria. These criteria include: i) stable cash flows supported by investment grade shippers; ii) short and long-term accretion to cash distributions to our Unitholders; and iii) opportunity for future growth in volumes and cash flows.

Although the Partnership was unsuccessful in its other acquisition initiatives during the year, we will continue to review and analyze various opportunities with the goal of diversifying our asset base and diminishing the effects of Aux Sable in our asset portfolio. In 2002, we expensed \$1.9 million related to our acquisition evaluation initiatives.

Going forward, we will continue to monitor the asset acquisition market with the intention of acquiring additional assets that are complementary to our existing assets. We will be disciplined in our approach and conservative in our financial assumptions in order to provide growth in per unit cash distributions and net income for our Unitholders.

Our Distributions Paid

During 2002, the Partnership paid cash distributions in the aggregate amount of \$48.7 million or \$0.66 per Class A Unit. During the same period, the Partnership earned \$44.9 million of distributable cash or \$0.608 per Class A Unit. For 2003, the Partnership anticipates that the aggregate amount of cash distributions will vary between \$0.72 and \$0.82 per Class A Unit (annualized) based on approximately \$1.05 to \$1.15 per Class A Unit of distributions from the Alliance Pipeline, -\$0.10 to \$0.10 per Class A Unit for distributions from the Aux Sable Plant less \$0.35 to \$0.40 per Class A Unit for financing and administration expenses. These estimates have been prepared based on a U.S. \$ exchange rate of \$0.67. The amount of distributable cash is highly sensitive to the natural gas liquids extraction margins. Since start-up of the Aux Sable Plant on December 1, 2000, this margin has been very volatile which has resulted in the Aux Sable Plant being unable to generate distributions for its owners, including Fort Chicago. In order for the Partnership to be in a position to pay aggregate cash distributions in 2003 in the upper end of the range, a recovery in natural gas extraction margins in the final three quarters of 2003 to a "normal" 10-year average value would be required.

Our Management Arrangements

During 2002, the compensation arrangements for income funds (including royalty trusts, limited partnerships and income funds) were closely examined by the investing public to determine if they are still appropriate. This resulted in the termination of management arrangements for some entities and the "internalization" of management which is more consistent with typical corporate structures.

When Fort Chicago was established in 1997, the Board of Directors of our promoter, Chauvco Resources Ltd., determined that a management agreement structure was not appropriate and established compensation arrangements similar to those adopted by publicly-traded corporations. As such, the senior management of Fort Chicago is considered to be "internal." Chauvco also believed it was essential that Unitholders be given the opportunity to elect the Board of Directors of the general partner of the Partnership while still retaining their limited liability status. Accordingly, a trust arrangement was established whereby the Unitholders can recommend to a trustee on an annual basis the directors for the ensuing year. Under this structure, the corporate governance and compensation arrangements are closely aligned with the interests of Unitholders.

In late 2002, Mr. Guy Turcotte stepped down as Chief Executive Officer and, effective January 1, 2003, Mr. Stephen H. White was promoted to Chief Executive Officer. Mr. White has been President and Chief Financial Officer of the general partner since Fort Chicago was formed in 1997. He has worked with Mr. Turcotte in several executive capacities for the past 19 years. Mr. White has over 20 years of experience in the oil and gas production and transportation industries. Mr. Turcotte will retain the position of Chairman of the Board of the General Partner. Mr. Turcotte's leadership and foresight has been highly valuable in developing and implementing the strategic direction of Fort Chicago. We wish Mr. Turcotte well in his business ventures and thank him for his guidance and wisdom in establishing, financing and managing the affairs of the Partnership over the last five years.

Capital Markets

For the income fund sectors of the capital markets, 2002 was generally an excellent year. The sector has outperformed the general market since January 2000. Also during 2002, the S&P/TSX Canadian Income Trust Index was created and our Class A Units represent 2.152 percent of this index.

Capital raised by income funds totalled \$9.95 billion in 2002, a 118 percent increase from \$4.57 billion issued in 2001, as the markets were generally receptive to IPOs and follow-on offerings. During 2002, the issuance of convertible debentures became popular and issuances totalling \$1.15 billion occurred during the year. We were able to take advantage of this in early 2003 when we issued \$150 million of 7.5 percent convertible debentures.

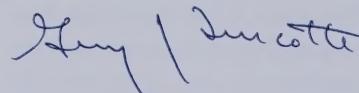
Investments in the income fund sector are vulnerable to increases in interest rates and Canadian interest rates have increased slightly in early 2003. However, we believe that our Class A Unit price has not fully recognized the accretion in cash distributions per Class A Unit that occurred as a result of the acquisitions completed in 2002 or the Duke acquisition announced in late March 2003.

Outlook

As we move into 2003, Fort Chicago has built a strong business based on our investment in the Alliance Pipeline. Consolidation of the ownership interests in this asset has provided tangible financial benefits for our Unitholders as evidenced by our growing cash distributions. We continue to be disappointed with the Aux Sable investment. Recent increases in the price of natural gas have placed further pressure on the financial performance of Aux Sable and have likely delayed a recovery in the natural gas liquids extraction margin. As a result, it is extremely difficult to predict the timing or size of any cash distributions from this asset. We are actively investigating ways to improve the financial performance of this investment including the possibility of hedging a portion of the cash flow.

The Alliance Pipeline and the Aux Sable Plant are strategically positioned to transport and process Northern gas to Midwestern and Eastern markets. We believe that in 2003 tangible progress in Canada and Alaska will be evident on the projects to bring this vast resource to market. During 2003, we plan to refinance a portion of our acquisition bridge credit facilities utilized to purchase additional interests in Alliance and Aux Sable and will access the private and public debt and equity markets when appropriate. We remain committed to our mandate to provide stable, long-term tax efficient cash distributions to you, our Unitholders.

Respectfully submitted



Guy J. Turcotte
Chairman



Stephen H. White
President and Chief Executive Officer

March 20, 2003

The Alliance Pipeline System (the “Alliance Pipeline” or the “System”) consists of an approximately 3,000 kilometre integrated, high-pressure natural gas transmission system, an approximately 700 kilometre lateral pipeline system and related infrastructure. The Alliance Pipeline has been designed to transport 1.325 billion cubic feet per day (“Bcf/d”) of natural gas on a firm-service basis from Northwestern Alberta and Northeastern British Columbia to delivery points near Chicago, Illinois, where the Alliance Pipeline connects with two local natural gas distribution systems and five interstate natural gas pipelines. These interconnections provide access to markets in the Midwestern and Northeastern U.S. and Eastern Canada.



The Alliance Pipeline also connects to the Aux Sable Liquid Products LP ("Aux Sable") natural gas liquids extraction and fractionation plants located in Channahon, Illinois, near the terminus of the Alliance Pipeline. The Canadian portion of the system is owned and operated by Alliance Pipeline Limited Partnership ("Alliance Canada"). The U.S. portion of the system is owned and operated by Alliance Pipeline L.P. ("Alliance USA" and together with Alliance Canada, "Alliance"). Alliance USA and Aux Sable entered into agreements whereby Aux Sable extracts natural gas liquids from the liquids rich gas stream transported on the Alliance Pipeline in order to meet existing downstream pipeline heat content requirements. In exchange for the natural gas liquids extracted, shippers on the system receive natural gas on an energy equivalent basis.

Ownership of Alliance

During 2002, the Partnership acquired an 11.1 percent interest in Alliance from The Williams Companies, Inc. ("Williams") and El Paso Corporation ("El Paso") for approximately \$206.3 million. A 15.7 percent interest in Alliance owned by Williams and El Paso was purchased by Enbridge Inc. ("Enbridge") in conjunction with the Fort Chicago purchases. Fort Chicago and Enbridge purchased the remaining El Paso interests in Alliance (approximately 1.1 percent each at an approximate cost of \$18 million each) on March 24, 2003. On March 20, 2003, the Partnership announced that it had agreed to acquire 50 percent of the interest in Alliance owned by Duke Energy Corporation ("Duke") for approximately \$202 million. Before giving effect to Fort Chicago's purchases of the Williams, El Paso and Duke interests in Alliance, Fort Chicago owned a 26.0 percent interest in Alliance. As a result of the completion of the purchases by Fort Chicago and Enbridge of the Williams, El Paso and Duke interests, the current ownership of Alliance is as follows:

Fort Chicago Energy Partners L.P.	50%
Enbridge Inc.	50%

Results of Operations

Alliance faced a number of unexpected operational challenges during 2002 that stemmed from mechanical difficulties encountered at its compressor facilities. Alliance worked with equipment suppliers and others to make recommended equipment modifications and improvements. Combined with the dedicated efforts of operations personnel, the challenges were overcome in a safe and timely manner. Despite these challenges, Alliance met its contracted daily firm service shipping capacity throughout all of 2002 and did not forego any revenue as a result. A key feature of the Alliance Pipeline is Authorized Overrun Service ("AOS"). AOS represents pipeline capacity in excess of firm contracted capacity, and is offered to existing shippers on an interruptible basis for no additional cost other than the incremental compressor fuel needed to transport the AOS volumes. By offering consistent levels of AOS, Alliance's overall effective per unit transportation costs for shippers is lowered. In addition to meeting shippers' firm contracted capacity commitments of 1.325 Bcf/d, Alliance offered average levels of AOS of approximately 11 percent for the year ended December 31, 2002 (2001 – 15 percent). Alliance was forced to reduce AOS levels for a number of months during 2002 as compared with 2001 while conducting ongoing investigations and maintenance to remediate mechanical difficulties encountered at its compressor facilities. The remediation efforts have proven to be successful and Alliance was able to restore AOS to more seasonal normal levels during the last quarter of 2002.

To date in 2003, Alliance has met its contracted daily firm service shipping capacity and has continued to offer high levels of AOS. Actual transportation deliveries, including utilized AOS, averaged 1.481 Bcf/d for the year ended December 31, 2002 (2001 – 1.479 Bcf/d), as shippers continued to utilize all AOS offered.

Net income for Alliance Canada for the year ended December 31, 2002 was \$99.1 million, compared with net income of \$102.3 million for the year ended December 31, 2001. Net income before taxes for Alliance USA for the year

ended December 31, 2002 of \$93.7 million is comparable with net income of \$92.9 million for the year ended December 31, 2001. Net income reflects a return on equity applied to rate base accounts and an allowance for income, large corporations and provincial capital taxes on regulated activities. The rate used to calculate the equity return on rate base accounts for the year ended December 31, 2002 was 11.3 percent in Canada and 10.7 percent in the U.S., consistent with the rates applied for 2001. Although the rates are not expected to change, the absolute annual return realized on rate base will decline over time as the rate base is depreciated. Ongoing capital additions to the rate base will offset the rate of decline to some extent.

Alliance has 15-year firm service transportation services contracts with a group of 33 shippers. These contracts obligate each shipper to pay monthly demand charges based on that shipper's contracted volume, regardless of volumes actually transported on the System. These charges are subject to limited rights for each shipper to receive demand charge credits to the extent Alliance is unable, for any reason related solely to the physical capability of the System, to transport volumes of natural gas up to the shipper's contracted capacity that were properly scheduled for delivery. If incurred, demand charge credits would decrease Alliance's revenue and net income. No demand charge credits were incurred during the year ended December 31, 2002.

Cash provided by operating activities was \$208.7 million for Alliance Canada and U.S. \$101.0 million for Alliance USA for the year ended December 31, 2002, compared to cash provided by operating activities of \$218.2 million for Alliance Canada and U.S. \$113.7 million for Alliance USA for the year ended December 31, 2001. The decrease in cash flow from operations for the current year, compared to the prior year, relates mainly to timing differences for settlement of working capital items, including the net adjustment for the difference between estimated tolls invoiced and actual tolls recoverable from shippers, and the decrease in the absolute annual return realized on rate base.

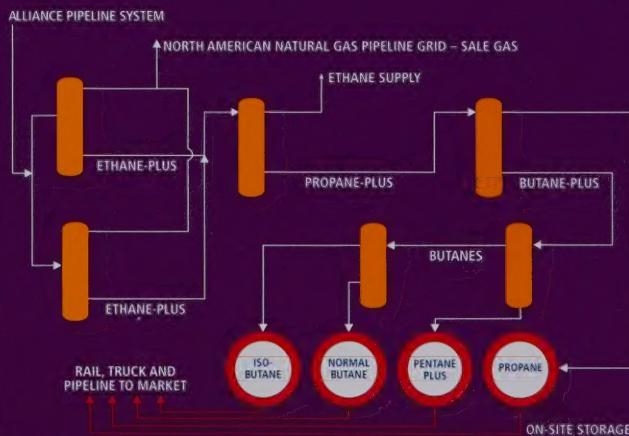
Alliance Canada made distributions to its partners (including Fort Chicago) in the aggregate amount of \$116.5 million in respect of 2002 operations (2001 – \$143.7 million). Alliance USA made distributions to its partners (including Fort Chicago) in the aggregate amount of U.S. \$67.0 million in respect of 2002 operations (2001 – U.S. \$74.0 million), Alliance Canada withheld \$16.2 million and Alliance USA withheld U.S. \$4.6 million in 2002 to fund their capital expenditure programs.

Additions to capital assets for the year ended December 31, 2002 were \$42.0 million for Alliance Canada and U.S. \$11.0 million for Alliance USA compared with additions to capital assets of \$34.7 million for Alliance Canada and U.S. \$47.3 million for Alliance USA for the year ended December 31, 2001. The increase in additions to capital assets compared to the prior year reflects expenditures made to optimize utilization of the lateral gathering system. The capital additions for the year ended December 31, 2001 were primarily associated with right of way restoration, construction clean-up and a more modest 2001 capital maintenance program.

Outlook

Alliance will continue to focus its efforts in 2003 on managing system assets and infrastructure and further developing its operational procedures and processes with a view to maximizing available transportation capacity and the competitiveness of its rates. For the longer term, Alliance is well positioned to cost-effectively expand the System through the installation of additional compression. This expansion will be driven by the desire of the producers to transport additional volumes of WCSB or Northern gas to Midwest or Eastern markets.

The Aux Sable System (“Aux Sable”) consists of a natural gas liquids (“NGL”) extraction plant capable of processing 2.1 billion cubic feet per day, a fractionation plant capable of processing up to 70,000 barrels per day (“bbls/d”) of propane plus, storage and downstream pipelines and loading facilities owned by Aux Sable Liquids Products L.P. (“Aux Sable US”). Aux Sable US is a significant supplier of propane and ethane to the Midwestern U.S., particularly for the State of Illinois and its neighbouring states. Over the last several years, Aux Sable US has put in place the necessary commercial arrangements to effectively market all the production from the plant including a long-term contract with respect to the ethane production, a long-term propane contract for sale of propane during the lower volume summer months and contracts to access truck and rail-loading facilities. In addition, Aux Sable Canada LP (“Aux Sable Canada”) owns or leases various NGL injection facilities connected to the Alliance Pipeline.



Ownership of Aux Sable

During 2002, the Partnership acquired a 4.9 percent interest in Aux Sable from El Paso Corporation for approximately \$5.9 million. A 9.5 percent interest in Aux Sable owned by El Paso was purchased by Enbridge in conjunction with the Fort Chicago purchase. On March 20, 2003, the Partnership announced that it had agreed to acquire 50 percent of the interest in Aux Sable held by Duke for approximately \$3.3 million. Before giving effect to Fort Chicago's purchase of the El Paso and Duke interests in Aux Sable, Fort Chicago owned a 26.0 percent interest in Aux Sable. As a result of the completion of the purchases by Fort Chicago and Enbridge of the El Paso and Duke interests, the current ownership of Aux Sable is as follows:

Fort Chicago Energy Partners L.P.	42.7%
Enbridge Inc.	42.7%
The Williams Companies, Inc.	14.6%

Results of Operations

Aux Sable faced a number of challenges during 2002 that stemmed from the depressed NGL extraction margins experienced in its market area. Propane extraction margins in the first half of 2002 were depressed as a result of excess inventories. These inventories were drawn down in the second half of the year and the propane extraction margin for the second half of the year was close to normal levels. The ethane extraction margin was depressed for the complete year as a result of a number of factors including excessive inventories, strong extraction margins in the Rocky Mountain area of the U.S. and a weak petrochemical sector. During 2002, ethane was only

extracted when it was profitable or to satisfy minimum weekly delivery quantities specified in Aux Sable's supply contract. During 2002, the plant recovered on average 49,000 bbls/d (2001 – 47,000 bbls/d) of NGL consisting of 23,000 bbls/d of ethane (2001 – 27,000 bbls/d) and 26,000 bbls/d of propane plus (2001 – 20,000 bbls/d). Throughput volumes at the plant were also impacted by the lower levels of AOS service offered on the Alliance Pipeline. In 2003, we are forecasting the plant to produce approximately 48,000 to 68,000 bbls/d of NGL consisting of 20,000 to 38,000 bbls/d of ethane and 28,000 to 30,000 bbls/d of propane plus.

Despite these challenges faced by Aux Sable in 2002, Aux Sable did improve the operational performance of the plant to anticipated levels. In July 2002, the Aux Sable owners approved a plan to reduce the operating costs at the Aux Sable Plant including a reduction in the number of staff and the closing of the office in Lisle, Illinois. In August 2002, Aux Sable recognized a reorganization expense of U.S. \$1.9 million related thereto. These initiatives, coupled with an overall reduction in all discretionary spending, will assist Aux Sable in improving its cash flow and ultimately returning to profitability when the NGL extraction margins improve.

The net loss for Aux Sable US for the year ended December 31, 2002 was U.S. \$17.8 million, compared with a net loss of U.S. \$32.4 million for the year ended December 31, 2001. Net income for Aux Sable Canada for the year ended December 31, 2002 of \$1.5 million compared with net income of \$0.2 million for the year ended December 31, 2001.

Cash flow was U.S. -\$1.8 million for Aux Sable US and \$1.6 million for Aux Sable Canada for the year ended December 31, 2002, compared to cash flow of U.S. -\$16.6 million for Aux Sable US and \$0.2 million for Aux Sable Canada for the year ended December 31, 2001. Additions to capital assets for the year ended December 31, 2002 were U.S. \$4.6 million in Aux Sable US and \$2.9 million in Aux Sable Canada compared with additions to capital assets of U.S. \$14.5 million for Aux Sable US and \$0.1 million in Aux Sable Canada for the year ended December 31, 2001. The decrease in additions to capital assets compared to the prior year reflects a decision to cancel all discretionary capital expenditures.

Present expectations, based upon the NGL extraction margins experienced during the first two months of 2003, are that the Aux Sable owners will need to provide additional working capital during March to enable Aux Sable to make a U.S. \$6.25 million payment required under its long bank facility on March 31, 2003. Fort Chicago's share of this commitment is approximately \$2.8 million. At this time, it is extremely difficult to predict what additional working capital may be required by Aux Sable in 2003 or when Aux Sable will commence cash distributions to its owners, including Fort Chicago. Fort Chicago may be required to support Aux Sable until positive margins are established. In addition, Aux Sable's revolving credit facility matures on September 27, 2003. Aux Sable will have to

refinance this revolving credit facility prior to its maturity on September 27, 2003 and may need owner credit support (including from Fort Chicago) to refinance this facility. Aux Sable may require additional owner equity support (including from Fort Chicago) to repay the U.S. \$6.25 million due on its bank term facility in September 2003. Fort Chicago is not expecting to receive any cash distributions from Aux Sable until at least the fourth quarter of 2003 as Aux Sable will be building an inventory of propane and butane during the summer months of 2003 for sale commencing in the fourth quarter of 2003.

Outlook

Aux Sable will continue to focus its efforts in 2003 on improving the financial performance of its assets. With the changes to the ownership of Aux Sable we believe that there will be a consensus to allow Aux Sable to hedge the volatile NGL extraction margins. This will be a priority for the second quarter of 2003. In the longer term, Aux Sable is well positioned to cost-effectively process additional volumes from the Alliance Pipeline. The Aux Sable Plant has been designed to ultimately accommodate up to 110,000 to 120,000 bbls/d of NGL production with the expenditure of an additional U.S. \$25 million to U.S. \$35 million. Any decision to expand the plant will depend upon the owners securing a long-term processing contract for the additional volumes.

Alliance Canada Marketing Limited Partnership ("AC Marketing") holds long-term contracts for approximately 76 million cubic feet per day of transportation capacity on Alliance Pipeline. This capacity is used partially to provide transportation service to a number of upstream producers under term contracts, but primarily to supply the requirements of the Aus Sable plant for make-up gas and fuel. The ownership interests in AC Marketing are identical to Aus Sable. During 2002, Fort Chicago received a payment of approximately \$9.6 million from El Paso to assume 4.9 percent of the support obligations related to AC Marketing and will receive approximately \$21.5 million in 2003 when it assumes a further 11.8 percent of the support obligations held by Duke.

Results of Operations

The net loss for AC Marketing for the year ended December 31, 2002 was \$5.7 million, compared with a net loss of \$9.3 million for the year ended December 31, 2001. The loss payments made by the owners of AC Marketing for the year ended December 31, 2002 were \$7.0 million compared with \$16.0 million for the year ended December 31, 2001. The improved financial performance in 2002 was the result of an improvement in the basis differential for natural gas purchased in Alberta and sold in Chicago. Present expectations stand upon the natural gas price expected during the first two quarters of 2003, and that the AC Marketing owners will not need to provide any additional deficiency payments until late in the second quarter of 2003.

Management's Discussion and Analysis

Financial Highlights

(\$ thousands, except per Unit amounts)	Three months ended December 31			Year ended December 31	
	2002		2001	2002	
	(Unaudited)	(Restated)	(Unaudited)	(Audited)	(Restated)
Net income	\$ 6,788		\$ 8,722	\$ 25,734	\$ 14,095
Net income per Class A Unit	\$ 0.09		\$ 0.12	\$ 0.35	\$ 0.19
Distributions					
Distributable cash	\$ 12,879		\$ 9,769	\$ 44,889	\$ 49,625
Distributable cash per Class A Unit	\$ 0.173		\$ 0.133	\$ 0.608	\$ 0.678
Distributions paid or payable	\$ 13,387		\$ 12,823	\$ 48,748	\$ 49,045
Distributions paid or payable per Class A Unit	\$ 0.180		\$ 0.175	\$ 0.660	\$ 0.670
Tax losses allocated to Unitholders per Class A Unit	—		—	\$ 0.34	\$ 0.57
					December 31
(\$ thousands, except Unit data)				2002	2001
				(Audited)	(Audited)
Financial position					
Cash and short-term investments			\$ 11	\$ 13,677	
Investment in Alliance projects			\$ 774,685	\$ 586,430	
Partners' equity			\$ 469,720	\$ 487,311	
Class A Units outstanding			74,372,673	73,275,759	

General Overview

The year 2002 represented a significant milestone for Fort Chicago Energy Partners L.P. (the "Partnership" or "Fort Chicago"). Fort Chicago's investment in the Alliance Pipeline performed well during the year and distributions received by the Partnership from the Alliance Pipeline met expectations. The continued difficult business environment for the natural gas liquids ("NGL") extraction sector resulted in continued losses from our Aux Sable investment. During the year, the Partnership was able to increase its ownership interest in the Alliance Pipeline to 37.1 percent and in Aux Sable and Alliance Canada Marketing to 30.9 percent. The related acquisitions are more fully described later in this Management's Discussion and

Analysis ("MD&A"). Fort Chicago arranged the necessary bridge funding to complete these acquisitions and in early 2003 repaid a portion of this bridge funding with the proceeds from a convertible debenture offering of \$150 million that is more fully described later in this MD&A.

Results of Operations

Net income for the year ended December 31, 2002 was \$25.7 million or \$0.35 per Class A Unit compared to \$14.1 million or \$0.19 per Class A Unit for 2001. The primary factors contributing to the improved net income in the year were reduced losses in Aux Sable of \$6.8 million (compared to a loss of \$13.6 million in the prior year), a reduced loss on

natural gas marketing activities of \$1.2 million in the current year (compared to a loss of \$2.2 million in the prior year) and slightly improved earnings on the Alliance Pipeline.

For the three-month period ended December 31, 2002, the Partnership recorded net income of \$6.8 million or \$0.09 per Class A Unit compared to \$8.7 million or \$0.12 per Class A Unit in the fourth quarter of 2001. The primary reason for the decrease in net income was higher general and administrative expenses offset by slightly improved earnings on the Alliance Pipeline and an improvement in the natural gas marketing activities conducted by Alliance Canada Marketing. During the fourth quarter of 2002, the Partnership incurred approximately \$1.9 million of expenditures related to business development initiatives that were expensed.

Change in Accounting Policy and Restatement of Prior Years' Financial Results

On January 1, 2002, the Partnership adopted the Canadian Institute of Chartered Accountants standard regarding foreign currency translation more fully described in Note 4 of the Consolidated Financial Statements of the Partnership. As a result, the results for 2001 and earlier have been restated. Therefore, comparative financial results that are included throughout this MD&A reflect this restatement. The adoption of this accounting standard has increased the volatility of the Partnership's reported net earnings due to the fact that a majority of the Partnership's debt is denominated in U.S. dollars. The reported distributable cash is unaffected by this new standard.

Acquisition of Additional Interests in the Alliance Pipeline, Aux Sable Plant and Alliance Canada Marketing

On October 29, 2002, the Partnership completed the purchase of an approximate 5.0 percent additional interest in the Alliance Pipeline from The Williams Companies, Inc. ("Williams") for approximately \$93 million. Fort Chicago also acquired an

approximate 6.1 percent additional interest in the Alliance Pipeline and an approximate 4.9 percent additional interest in Aux Sable and Alliance Canada Marketing from El Paso Corporation ("El Paso") for approximately \$110 million on November 21, 2002. The Partnership will acquire an additional 1.1 percent interest in the Alliance Pipeline from El Paso in late March, 2003 for approximately \$18.2 million.

As a result of these acquisitions, Fort Chicago's ownership has increased to an approximate 37.1 percent interest in the Alliance Pipeline (to increase to an approximate 38.2 percent interest when the additional 1.1 percent interest in Alliance Pipeline is acquired) and an approximate 30.9 percent interest in Aux Sable and Alliance Canada Marketing.

To finance these acquisitions, the Partnership arranged an acquisition credit facility in the maximum amount of \$250 million. Such facility is for a term of one year and has terms and covenants similar to Fort Chicago's existing revolving credit facility, except that Fort Chicago has undertaken to provide a security interest over the ownership interest in two subsidiary entities should such facility not be repaid by April 28, 2003. Approximately \$143.4 million of this facility was repaid from the issuance of convertible debentures in January 2003.

On March 20, 2003, the Partnership announced the acquisition of an additional 11.8 percent interest in the Alliance Pipeline, Aux Sable Plant and Alliance Canada Marketing for cash consideration of approximately \$184 million. To finance this acquisition, the Partnership has arranged a second bridge credit facility in the amount of \$160 million. The Partnership anticipates utilizing this new facility and the undrawn amount available under the original bridge credit facility to finance this latest acquisition.

Quarterly Information

2002	Three months ended			
	March 31	June 30	September 30	December 31
Revenues (\$ thousands)				
Interest	\$ 53	\$ 30	\$ 32	\$ 5
Net income (\$ thousands)	\$ 5,943	\$ 7,941	\$ 5,062	\$ 6,788
Net income per Class A Unit				
Basic and diluted	\$ 0.08	\$ 0.11	\$ 0.07	\$ 0.09
Distributable cash (\$ thousands)	\$ 10,446	\$ 9,935	\$ 11,629	\$ 12,879
Distributable cash per Class A Unit	\$ 0.142	\$ 0.135	\$ 0.158	\$ 0.173

2001 (Restated)	Three months ended			
	March 31	June 30	September 30	December 31
Revenues (\$ thousands)				
Interest	\$ 311	\$ 17	\$ 119	\$ 87
Net income (loss) (\$ thousands)	\$ (7,165)	\$ 7,360	\$ 5,178	\$ 8,722
Net income (loss) per Class A Unit				
Basic and diluted	\$ (0.10)	\$ 0.10	\$ 0.07	\$ 0.12
Distributable cash (\$ thousands)	\$ 13,555	\$ 13,446	\$ 12,855	\$ 9,769
Distributable cash per Class A Unit	\$ 0.186	\$ 0.184	\$ 0.175	\$ 0.133

Liquidity and Capital Resources

The Partnership has been capitalized as follows:

(\$ thousands)		
Partners' equity	\$ 469,720	60%
Senior Notes (U.S. \$71,250)	\$ 112,547	14%
Acquisition Bridge Credit Facility	\$ 202,004	26%
	\$ 784,271	100%

Partners' Equity Partners' equity increased during the year as a result of the issuance of 288,750 Class A Units upon the exercise of warrants issued in 1998 and the issuance of 944,350 Class A Units under the Partnership's Distribution Reinvestment Plan (the "Plan").

The Plan enables eligible Unitholders to direct that the eligible portion of a cash distribution paid by Fort Chicago in respect of their existing Class A Units be reinvested in additional Class A

Units at a five percent discount to the average market price. The eligible portion of any declared cash distribution which may be reinvested under the Plan is that portion which is not subject to U.S. withholding taxes.

The Plan includes a unique feature which allows participants to elect to either have these additional Class A Units held for their account under the Plan, or have them delivered to a designated broker in exchange for a premium cash payment

equal to 102 percent of the reinvested amount. Subject to certain limits described in the Plan, participants will also be able to directly purchase additional Class A Units from Fort Chicago for cash at a purchase price equal to the average market price (with no discount).

The Partnership has utilized the Plan to fund the ongoing capital program of Alliance Pipeline with equity. In this manner, the ongoing capital expenditures do not negatively impact distributions to Unitholders.

Senior Notes On August 15, 2001, two of the Partnership's subsidiary entities each sold U.S. \$37.5 million (total of U.S. \$75 million) principal amount of 7.71 percent senior unsecured notes due July 31, 2011 to institutional lenders in the United States on a private placement basis. Such notes are direct unsecured obligations of the issuer and rank equally with all other unsecured and unsubordinated indebtedness of the issuer. Interest on such notes is calculated and payable quarterly in arrears on each of January 31, April 30, July 31 and October 31 in each year commencing with October 31, 2001. Each issuer is obligated to repay principal in the amount of U.S. \$375,000 on each of the same quarterly payment dates commencing October 31, 2001 and in the amount of U.S. \$22,875,000 at maturity. During 2002, each issuer repaid U.S. \$1,500,000 (2001 – U.S. \$375,000) of such Senior Notes.

Each issuer of such notes has provided covenants customary for note issuances that include, among other things, the following: (i) each issuer will not, at any time, permit consolidated indebtedness to be more than 50 percent of consolidated capitalization and (ii) each issuer will not permit the ratio of operating cash flow to interest expense to be less than 3.00 to 1.00 at the end of each fiscal quarter of such issuer. Such financial covenants are calculated for each issuer and not at the Partnership level.

Each issuer of such notes has given the note purchasers a negative pledge not to encumber any of its assets except for

permitted encumbrances and has agreed that in the event it sells any portion of its interest in Alliance Pipeline L.P. or Alliance Pipeline Limited Partnership, as applicable, prior to maturity of its notes to redeem such notes at that time to the extent of the proceeds of such sale plus a make-whole amount and any unpaid and accrued interest thereon.

Each issuer of such notes may redeem all or any (subject to a minimum of 10 percent of the aggregate principal amount outstanding) of its notes at any time prior to maturity at par plus a make-whole payment and any accrued and unpaid interest on the redeemed amount.

Events of default apply to such notes which are customary for note issuances of this nature.

Acquisition Bridge Credit Facility On October 28, 2002, the Partnership obtained a non-revolving committed acquisition bridge credit facility in the maximum principal amount of up to \$250,000,000 (the "Bridge Credit Facility") from three lenders (the "Banks") to be used to finance the acquisitions of additional ownership interests in Alliance, Aux Sable and/or Alliance Canada Marketing representing up to an additional 15 percent of all of the ownership interests therein. The Bridge Credit Facility is available until, and matures on, October 28, 2003.

As of December 31, 2002, after completion of the Partnership's acquisitions of additional interests in Alliance, Aux Sable and Alliance Canada Marketing, the Partnership had principal amounts of approximately Canadian \$110.0 million and U.S. \$58.5 million outstanding under the Bridge Credit Facility. In January 2003, the Partnership made payments of Canadian \$54.0 million and U.S. \$58.5 million on the principal amount outstanding under the Bridge Credit Facility from the proceeds of the convertible debentures described below. The Partnership anticipates repaying the remaining principal amount outstanding on the Bridge Credit Facility prior to its maturity on October 28, 2003 from the proceeds of additional senior debt, convertible debt or issuances of Class A Units.

Revolving Credit Facility The limit available under the revolving credit facility provided by several of the Banks to the Partnership (the “Revolving Credit Facility”) was increased on October 28, 2002 to \$50.0 million from \$40.0 million. As of December 31, 2002, the Partnership had no borrowings under the Revolving Credit Facility, but had letters of credit outstanding thereunder in amounts of approximately Canadian \$11.3 million and U.S. \$7.4 million, both of which were issued to cover the Partnership’s pro rata share (as one of the owners of Alliance) of debt service reserve requirements relating to Alliance’s senior indebtedness.

The terms and conditions of the Bridge Credit Facility and the amended terms and conditions of the Revolving Credit Facility (including to increase the maximum principal amount thereof to \$50,000,000) are set forth in an amended and restated credit agreement between the Partnership and the Banks dated October 28, 2002 (the “Amended and Restated Credit Agreement”) which amended and restated a credit agreement dated March 6, 2001 (the “2001 Credit Agreement”). Such terms and conditions include covenants customary to bank credit facilities of this nature and which are similar to those set forth in the 2001 Credit Agreement including, among other things, the same financial covenants as were contained in the 2001 Credit Agreement.

For the purpose of providing continuing collateral security for the indebtedness and obligations of Fort Chicago under the Revolving Credit Facility and under the Bridge Credit Facility, certain of Fort Chicago’s direct or indirect subsidiary corporations and partnerships have delivered a guarantee and negative pledge to the lenders thereunder. This security replaces similar security that was already in place in regard to the Revolving Credit Facility. Pursuant to the terms and conditions relating to the Bridge Credit Facility, if the Bridge Credit Facility is not repaid by April 28, 2003, each of Fort Chicago Pipeline Canadian Limited Partnership and Fort Chicago Pipeline Canadian Pipeline L.P. will be required to execute and deliver, as continuing security for such guarantee, a security agreement granting a security interest in, as applicable, all of the issued

and outstanding shares of Fort Chicago Pipelines (Canada) Ltd. and all of its limited partner interests in Fort Chicago Pipeline II U.S. L.P.

Convertible Debentures In January 2003, the Partnership issued \$150.0 million principal amount of 7.50 percent convertible unsecured subordinated debentures (the “Debentures”). The Debentures are convertible at the option of the holder at any time into Class A Units at a conversion price of \$9.00 per Class A Unit, subject to adjustment in certain events. The Debentures are unsecured obligations and rank equally with all other unsecured and subordinated indebtedness of Fort Chicago. The Debentures pay interest semi-annually and have a maturity date of June 30, 2008. Pursuant to Canadian generally accepted accounting principles, the Debentures will be accounted for as unitholders’ equity and the interest paid on the Debentures will be charged to unitholders’ equity.

The net proceeds realized from the issuance of the Debentures were used to partially repay indebtedness incurred under the Bridge Credit Facility in connection with the acquisition of additional interests in Alliance Pipeline, Aux Sable and Alliance Canada Marketing.

Long-term Credit Rating In November 2002, the Partnership received from Standard & Poor’s a long-term corporate credit rating of BBB on its senior unsecured debt with a stable outlook. This rating applies both to the Senior Notes issued by the Partnership’s subsidiary entities and to the \$202 million principal amount outstanding under the Bridge Credit Facility. This long-term corporate credit rating does not apply to the Debentures issued in 2003.

As a result of receiving this investment grade rating, the Partnership was released from its obligation to provide letters of credit to secure its pro rata share (as one of the owners of Alliance Canada Marketing) of the obligations of Alliance Canada Marketing under certain transportation services agreements and provided, in place thereof, its guarantee of such pro rata share.

Restrictions on the Partnership's Ability to Make Distributions

The ability of Fort Chicago to make cash distributions, return capital contributions or repay its bank credit facilities, or of its relevant subsidiaries to repay their senior unsecured notes, is primarily dependent upon the receipt by Fort Chicago through relevant subsidiaries of cash distributions and other payments from Alliance Pipeline and Aux Sable. Pursuant to the senior debt financing arrangements for the Alliance Pipeline, as long as there are any obligations outstanding to the lenders thereunder, Alliance Pipeline Limited Partnership and Alliance Pipeline L.P. may make distributions or return capital contributions to their limited partners (including relevant subsidiaries of Fort Chicago) so long as at the time of any such distribution or other payment various conditions are met including, among other things, (a) no "Event of Default" or event which with the giving of notice or passage of time or both could become an "Event of Default" shall have occurred and be continuing, (b) certain debt service accounts and debt service reserve accounts are fully funded, (c) certain debt service coverage ratios and projected debt service coverage ratios are met, and (d) such distribution or other payment is not funded by the senior debt of the Alliance Pipeline. An "Event of Default" is defined in the Common Agreement relating to the senior debt of the Alliance Pipeline to include those events which are typically referred to in a loan agreement and the occurrence of, among other things, any of the following events:

- 1) there is a stipulated level of defaults by shippers in making payments under transportation contracts or in complying with the creditworthiness requirements set forth in such Common Agreement; and
- 2) default by a third party under any operational agreement concerning Alliance or Aux Sable and failure to replace such third party within 90 days of such default and such default being likely to have a material adverse effect on Alliance Pipeline Limited Partnership or Alliance Pipeline L.P.

The Partnership's investment in the Alliance and Aux Sable projects has been made via debt and equity investments in subsidiary partnerships and corporations. There are no legal or practical restrictions on such subsidiary partnerships or corporations from transferring funds received from the Alliance and Aux Sable projects to the Partnership except that the subsidiary corporations must meet liquidity and solvency tests under applicable corporate law. The two subsidiaries of the Partnership which hold the direct investments in Alliance Pipeline Limited Partnership and Alliance Pipeline L.P., respectively, are the issuers of the Senior Notes described above. Each such issuer has given the note purchasers a covenant not to make distributions to its parent if at the time or as a result any "Event of Default" as defined in the note agreement, or any event or condition the occurrence or existence of which would, with the lapse of time or the giving of notice or both, become such an "Event of Default," would exist.

Commitments

The Partnership has certain commitments to fund Alliance Pipeline in respect to debt service reserve requirements relating to Alliance's senior indebtedness and has guaranteed certain transportation obligations of Alliance Canada Marketing L.P., an entity affiliated with the Alliance Pipeline. The Partnership has provided letters of credit to support the Alliance Pipeline obligations which are fully described in Note 11 of the Consolidated Financial Statements of the Partnership. The Partnership anticipates that it may be required to invest approximately \$1.9 million in Aux Sable in each of the first and third quarters of 2003 to enable Aux Sable to make payments under its credit facility that are due on March 31, 2003 and September 27, 2003. In addition, the Partnership may be required to invest further funds to enable Aux Sable to extend its revolving credit facility prior to its maturity on September 27, 2003. The Partnership may commit further funds during the coming year to enhance or expand the Alliance and Aux Sable projects, the amount of which should not be significant.

Distributions

The Partnership distributes “Distributable Cash” to Unitholders on a quarterly basis. The Partnership anticipates distributing Distributable Cash in respect of the quarters ending March, June, September and December in each year to Unitholders of record on the last day of the applicable quarter. Payments will be made on or before the 30th day after each record date. There is no assurance that the Partnership will make a distribution for any particular quarter. In future, the Partnership may determine to distribute Distributable Cash on a monthly basis rather than a quarterly basis.

The annual amount of Distributable Cash will vary based on, (i) the amount of distributions received from the Alliance Pipeline and Aux Sable Plant, (ii) the economics of operating

the Aux Sable Plant, (iii) the amount of cash held in reserve by the Partnership, (iv) the financing costs of the Partnership, including the requirement to retire the indebtedness of the Partnership and applicable subsidiaries, (v) the operating expenses of the Partnership, and (vi) the Partnership’s subsidiaries which issued the Senior Notes described above not being in default under their note agreements.

The Partnership’s bank credit facilities impose certain restrictions on the ability of the Partnership to make cash distributions to Unitholders including (i) limiting the Partnership’s ability to incur additional debt to finance distributions and (ii) removing the ability of the Partnership to make distributions when a “Default” or an “Event of Default” as defined in the applicable credit agreement shall have occurred and be continuing.

The Partnership has declared and paid the following distribution to holders of Class A Units:

Record Date	Payment Date	Distribution per Class A Unit		Distributions Paid/Payable in Cash		Distribution Paid in Units		Total Distribution Paid/Payable	
				(\\$ thousands)		(\\$ thousands)		(\\$ thousands)	
2001									
March 30, 2001	April 30, 2001	\$ 0.175	\$ 12,772	\$ —	\$ 12,772				
June 29, 2001	July 31, 2001	\$ 0.160	11,725	\$ —	11,725				
September 28, 2001	October 31, 2001	\$ 0.160	11,725	\$ —	11,725				
December 31, 2001	January 31, 2002	\$ 0.175	12,823	\$ —	12,823				
		\$ 0.670	\$ 49,045	\$ —	\$ 49,045				
2002									
March 28, 2002	April 30, 2002	\$ 0.160	\$ 11,770	\$ —	11,770				
June 28, 2002	July 31, 2002	\$ 0.160	9,342	\$ 2,429	9,342	2,429			
September 30, 2002	October 31, 2002	\$ 0.160	7,975	\$ 3,845	7,975	3,845			
December 31, 2002	January 31, 2003	\$ 0.180	12,322	\$ 1,065	12,322	1,065			
		\$ 0.660	\$ 41,409	\$ 7,339	\$ 41,409	7,339			
				\$ 48,748					

For 2003, the Partnership anticipates that the aggregate amount of distributions will vary between \$0.72 and \$0.82 per Class A Unit (annualized) based upon approximately \$1.05 to \$1.15 per Class A Unit of distributions from the Alliance Pipeline, -\$0.10 to \$0.10 per Class A Unit for distributions from the Aux Sable Plant less \$0.35 to \$0.40 per Class A Unit for financing and administration expenses. These estimates have been prepared based on a U.S. \$ exchange rate of \$0.67. The amount of distributable cash is highly sensitive to the natural gas liquids extraction margins. Since start-up of the Aux Sable Plant on December 1, 2000, this margin has been very volatile which has resulted in the Aux Sable Plant being unable to generate distributions for its owners, including Fort Chicago. In order for the Partnership to be in a position to pay aggregate cash distributions in 2003 in the upper end of the range, a recovery in natural gas extraction margins in the final three quarters of 2003 to a "normal" 10-year average value would be required.

Taxation of Fort Chicago Unitholders and the Receipt of Distributions by Unitholders

The following is of a general nature and is not intended to be, nor should it be considered to be, legal or tax advice. Therefore, Unitholders should consult their own tax advisors with respect to their particular circumstances.

Tax Deductions A partnership generally is not subject to federal or provincial income tax. The annual income gains, losses, deductions or credits of the Partnership flow through to the Unitholders who are required to report their allocated share of these amounts on their individual tax returns as though the Unitholder had incurred these items directly. The Partnership agreement allocates these amounts to Unitholders of record on March 31, June 30, September 30 and December 31 of each year ("Unitholder of Record").

In March, Unitholders of Record receive a T5013 tax form that summarizes their allocated share of the Partnership's reportable tax items for the calendar year ended December 31, and certain information required to be included in their tax returns. Only the amounts shown on the T5013 should be entered on each Unitholder's tax returns. During the year, the Partnership allocated a loss to Unitholders of approximately \$0.34 per Class A Unit.

Distributions and Adjusted Cost Base of Units Holders of Class A Units are required to reduce the adjusted cost base of their units by the amount of any distributions received. In addition, the cost base of a holder's units is reduced by the amount of any loss allocated to a Unitholder and increased by the amount of any income allocated to a Unitholder on their T5013 form.

The adjusted cost base is used in calculating capital gains and losses on the disposition of the Class A Units if the units are held as capital property by the Unitholder.

U.S. Withholding Taxes

A certain portion of the distribution paid by the Partnership is subject to U.S. withholding taxes. Included in the 2002 distribution payments made to Unitholders was approximately \$0.055 per Class A Unit that was considered U.S. source interest income and therefore subject to U.S. withholding taxes.

In 2003, the Partnership anticipates that approximately \$0.03 per Class A Unit per quarter will be subject to U.S. withholding taxes. The rate of withholding tax depends on the status of the Unitholder, with Canadian individuals and corporations subject to a 10 percent withholding tax rate and tax exempt organizations (generally RRSPs and pension plans) not subject to U.S. withholding taxes.

Ownership Restrictions

The Partnership was organized in accordance with the terms and conditions of a limited partnership agreement dated as of October 9, 1997 as amended and restated on November 21, 1997 and as further amended on March 7, 2001 (the "Partnership Agreement"). The Partnership Agreement provides that no Class A Units may be transferred to a person who is a "non-resident" of Canada, a person in which an interest would be a "tax shelter investment" or a partnership which is not a "Canadian partnership" for purposes of the *Income Tax Act* (Canada).

Risk Factors

An investment in Class A Units is subject to a number of risks. There is a risk that a purchaser of Class A Units may lose some or all of his or her investment. Presently, the Partnership's sole asset is its interests in the Alliance Pipeline, Aux Sable Plant and Alliance Canada Marketing.

The business of the Partnership is subject to the normal risks associated with the pipeline, NGL extraction and natural gas marketing industries, including operating risks inherent in the operation of a complex pipeline system with little prior operating history, future demand risks beyond the terms of the current transportation contracts, related dependence on available reserves within the Western Canadian Sedimentary Basin and the exploitation thereof, government and environmental regulations where applicable, price fluctuations of natural gas and NGL, availability of inlet natural gas, risk of default by shippers, competitive pressures, fluctuation of the Partnership's operating costs, fluctuations in the U.S.-Canada currency exchange rate, present and future financing risk of the Alliance and Aux Sable projects and risks of claims in excess of insurance coverage maintained by Alliance and Aux Sable projects. Furthermore, risks of substantial costs and liabilities relating to environmental claims are inherent in pipeline and natural gas processing operations and there can be no assurance that such costs or liabilities will not be incurred.

Distributions by the Partnership to the holders of Class A Units will fluctuate and there can be no assurance regarding the amounts to be distributed. The revenue of the Partnership will be based upon tolls charged pursuant to transportation service agreements, which expire 15 years after the in-service date of the Alliance Pipeline, unless renewed. Therefore, beyond the initial term of such agreements, the revenues derived by the Partnership will depend upon demand for natural gas in markets served by the Alliance Pipeline and the availability of competitive alternatives for transportation of natural gas to such markets.

The Partnership may issue an unlimited number of additional Class A Units without the approval of the holders of Class A Units, such that the holders of Class A Units may be subject to a dilution of their interests. A holder of Class A Units, to maintain limited liability, must not take part in the management or control of the Partnership's business. A complete listing of risk factors is available on the Partnership's Web site.

A Unitholder should consult with his own financial or tax advisor with respect to the tax considerations in connection with an investment in the Class A Units.

Risk Management

The primary risks affecting the amount of cash distributions to Unitholders are:

- 1) the movement of NGL extraction margins experienced by the Aux Sable Plant;
- 2) fluctuation in U.S./Canadian exchange rates; and
- 3) risk of default of shippers on the Alliance Pipeline.

Although the NGL extraction margins represent the largest potential variability in the cash available for distribution to Unitholders, the Partnership to date has not entered into hedging transactions. No recognized forward markets exist for ethane, and for propane the market is largely concentrated within the first two forward months. The use of a proxy hedge is theoretically possible to hedge NGL extraction margins and it would reduce the risk profile marginally; however, the possibility of losses occurring under the hedge at the same time as NGL extraction margins are falling was significant enough to override the potential benefits. In addition, the forward price for natural gas rises relative to the current price, while the opposite generally occurs for NGL prices. The resulting forward natural gas extraction margin therefore is generally much lower than the current margin, making it extremely difficult to hedge

an acceptable forward NGL extraction margin. In conjunction with the acquisition of an additional interest in Aux Sable in 2003, the Partnership and Enbridge have agreed to put in place during the second quarter of 2003 a hedging plan for a portion of the natural gas liquids production.

The Partnership's earnings and cash flow is largely derived in U.S. dollars. To offset some of this risk, we have denominated the Partnership's long-term borrowing in U.S. dollars to provide a hedge against movements in the U.S./Canadian exchange rate.

The Alliance shippers are concentrated in the natural gas producing and marketing sectors of the Western Canadian Sedimentary Basin. The Alliance Pipeline does not have a significant concentration of credit risk as it has a portfolio of 33 shippers, 78 percent of which are investment grade or equivalent. In addition, Alliance has a stringent credit review and approval process with any shipper not meeting Alliance's investment grade or equivalent criteria being required to post security in the form of cash, a letter of credit or a dedication of natural gas reserves. A number of significant shippers on the Alliance Pipeline are in the energy generation, transportation and marketing industries. These sectors are currently experiencing a financial downturn and declining credit quality. During 2003, approximately 10 percent of the Alliance shippers were downgraded to below investment grade and, as a result, they were required to post security that conformed to Alliance's credit policy.

Outlook

As we enter 2003, Fort Chicago's investment in Alliance continues to produce stable returns. The recent increases in the prices of natural gas have again had a negative impact on the Aux Sable operations. Fort Chicago will continue to monitor the asset acquisition market and it will continue to be an acquirer of assets provided they are accretive to the Partnership's earnings and cash distributions. Fort Chicago believes that this is an excellent time to be an acquirer of high-quality assets that meet its strategic and financial objectives. However, Fort Chicago will not grow for the sake of a larger market capitalization, but to become more profitable.

Forward-looking Information

Some of this information may contain projections or forward-looking statements regarding future events or the future financial performance of the Partnership. Fort Chicago cautions that the statements are only predictions, and by their nature, forward-looking statements involve risk and uncertainty. Fort Chicago's actual results may differ materially from those expressed or implied in such forward-looking statements and/or many factors outside the control of the Partnership could affect the extent to which a particular projection is realized. A full description of the risks and uncertainties that may affect the operations, performance, development and results of the Partnership's business is included in the Annual Information Form of the Partnership which is available at www.fortchicago.com or by contacting the General Partner of the Partnership.

Management's Report

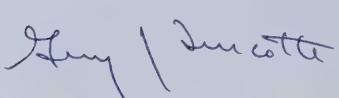
The financial statements of Fort Chicago Energy Partners L.P. have been prepared by the management of Fort Chicago Energy Management Ltd. (the "General Partner") in accordance with accounting principles generally accepted in Canada. If alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on estimates and judgements. Actual results may differ from these estimates and judgements. Management has ensured that the financial statements are presented fairly in all material respects.

Management maintains internal accounting and administrative controls designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that assets are appropriately accounted for and adequately safeguarded.

The Board of Directors of the General Partner is responsible for reviewing and approving the financial statements and, primarily through its Audit Committee, ensures that management fulfills its responsibilities for financial reporting.

The Board of Directors of the General Partner has appointed an Audit Committee to meet periodically during the year with management and the external auditors. The Audit Committee reviews with management and the independent external auditors the annual financial statements prior to submission to the Board of Directors for final approval.

The independent external auditors, PricewaterhouseCoopers LLP, have been appointed by the Unitholders to express an opinion as to whether the financial statements present fairly, in all material respects, the financial position, results of operations and cash flows in conformity with Canadian generally accepted accounting principles.



Guy J. Turcotte
Chairman



Stephen H. White
President and Chief Executive Officer

March 14, 2003

To the Board of Directors of Fort Chicago Energy Management Ltd.
as the General Partner of Fort Chicago Energy Partners L.P.

We have audited the Consolidated Statement of Financial Position of Fort Chicago Energy Partners L.P. (the "Partnership") as at December 31, 2002 and 2001 and the Consolidated Statements of Income and Undistributed Income and Cash Flows for the years then ended. These financial statements are the responsibility of the management of the Partnership's General Partner, Fort Chicago Energy Management Ltd. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Partnership as at December 31, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Calgary, Canada
March 14, 2003, except as
to Note 13(b) which is as
of March 20, 2003

PricewaterhouseCoopers LLP
Chartered Accountants

**Financial
Statements**

Consolidated Statement of Financial Position

December 31

(\$ thousands)	2002	2001
(Restated – Note 4)		
Assets		
Current assets		
Cash and short-term investments	\$ 11	\$ 13,677
Distribution receivable	21,531	15,313
Receivables	191	295
Prepaid expenses	–	89
	21,733	29,374
Investment in Alliance projects (Note 5)	774,685	586,430
Deferred expenses (Note 7)	5,528	4,431
	\$ 801,946	\$ 620,235
Current liabilities		
Payables	\$ 5,353	\$ 1,851
Current portion of Senior Notes (Note 8)	4,739	4,778
Distribution payable (Note 6(b))	12,322	12,823
Bank debt (Note 9)	58,604	–
	81,018	19,452
Non-current liabilities		
Senior Notes (Note 8)	107,808	113,472
Bank debt (Notes 9 and 13(a))	143,400	–
	251,208	113,472
	332,226	132,924
Partners' equity		
Partners' capital account (Note 6(a))	443,067	433,786
Warrants	–	380
Cumulative translation adjustment	14,497	17,975
Undistributed income	12,156	35,170
	469,720	487,311
	\$ 801,946	\$ 620,235

Approved by the Board of Directors of Fort Chicago Energy Management Ltd.
as the General Partner of Fort Chicago Energy Partners L.P.

By: Guy J. Turcotte
Director

By: Stephen W. C. Mulherin
Director

Consolidated Statement of Income and Undistributed Income

	For the year ended December 31	
(\$ thousands, except per Unit amounts)	2002	2001
		(Restated – Note 4)
Income		
Interest	\$ 120	\$ 534
Expenses		
Administration	4,472	1,818
Interest and other finance	10,245	9,301
Foreign exchange loss (gain)	(100)	4,931
Depreciation and amortization	1,020	2,283
Capital taxes	2,451	2,206
Net income (loss) before equity income	(17,968)	(20,005)
Equity income of Alliance projects (Notes 3 and 5)	43,702	34,100
Net income for the year	25,734	14,095
Undistributed income at the beginning of the year	37,386	71,253
Write-off of deferred foreign exchange loss (Note 4)	(2,216)	(1,133)
Distribution paid or payable (Note 6(b))	(48,748)	(49,045)
Undistributed income at the end of the year	\$ 12,156	\$ 35,170
Net income per Class A Unit		
Basic and diluted	\$ 0.35	\$ 0.19

Consolidated Statement of Cash Flows

	For the year ended December 31	
(\$ thousands, except per Unit amounts)	2002	2001
		(Restated – Note 4)
Operating		
Net income for the year	\$ 25,734	\$ 14,095
Less: Equity income of Alliance projects	(43,702)	(34,100)
Add: Depreciation and amortization	1,020	2,283
Unrealized foreign exchange loss (gain)	(602)	4,769
Distribution from Alliance projects	56,369	51,942
Cash flow	38,819	38,989
Financing		
Partners' equity	1,920	8,669
Issue costs	(358)	(32)
Bank debt	202,004	(132,186)
Debt issue costs	(2,116)	(2,119)
Senior notes	–	114,675
Repayment of senior notes	(4,717)	(1,193)
Distribution paid	(41,910)	(41,610)
Changes in non-cash working capital	3,695	20
	158,518	(53,776)
Investing		
Investment in Alliance projects	(210,996)	(5,505)
Deferred expenses	–	(3,057)
Office equipment	(7)	(5)
	(211,003)	(8,567)
Increase (decrease) in cash and short-term investments	(13,666)	(23,354)
Cash and short-term investments at the beginning of the year	13,677	37,031
Cash and short-term investments at the end of the year	\$ 11	\$ 13,677
Cash flow per Class A Unit		
Basic and diluted	\$ 0.53	\$ 0.53
Supplemental disclosure of cash flow information:		
Interest paid	\$ 10,190	\$ 7,866
Capital taxes paid	\$ 2,263	\$ 3,512

Note 1

Consolidated Statement of Distributable Cash

(\$ thousands, except per Unit amounts)	For the three months ended December 31			For the year ended December 31		
	2002		2001	2002		2001
	(Unaudited)	(Unaudited)	(Audited)	(Audited)	(Audited)	(Audited)
Cash inflows						
Distribution from Alliance projects prior to amounts withheld for capital expenditures	\$ 21,158	\$ 15,395	\$ 68,985	\$ 67,255		
Interest income	5	87	120	534		
	21,163	15,482	69,105	67,789		
Cash outflows						
Administration	(2,552)	(447)	(4,472)	(1,818)		
Realized foreign exchange gain (loss)	(582)	157	(502)	(162)		
Interest and other finance	(3,278)	(2,379)	(10,245)	(9,301)		
Capital taxes	(703)	(701)	(2,451)	(2,206)		
Marketing support payments	—	(1,140)	(1,829)	(2,290)		
Senior note – principal payments	(1,169)	(1,203)	(4,717)	(2,387)		
Distributable cash	\$ 12,879	\$ 9,769	\$ 44,889	\$ 49,625		
Distributable cash per Class A Unit	\$ 0.173	\$ 0.133	\$ 0.608	\$ 0.678		
Distributions paid or payable	\$ 13,387	\$ 12,823	\$ 48,748	\$ 49,045		
Distributions paid or payable per Class A Unit	\$ 0.180	\$ 0.175	\$ 0.660	\$ 0.670		

Note 2

Basis of Presentation and Business of the Partnership

Fort Chicago Energy Partners L.P. (the "Partnership") is a limited partnership created under the laws of the Province of Alberta on October 9, 1997.

The Partnership was created to acquire the interests in the Alliance projects held by Chauvco Resources Ltd. ("Chauvco") and all agreements related thereto. The business of the Partnership consists solely of directly or indirectly participating in the transportation, storage, marketing or processing of hydrocarbons and directly or indirectly investing and managing investments in other persons who are engaged primarily in these activities or carrying on the business of a financial intermediary.

Fort Chicago Energy Management Ltd., as General Partner, is responsible for overseeing the management of the Partnership, including the determination of the amount of distributions to the holders of limited partnership units of the Partnership.

The Consolidated Financial Statements include the accounts of the Partnership and its wholly owned subsidiary partnerships and corporations.

The Alliance projects consist of the Alliance Pipeline, the Aux Sable Plant and Alliance Canada Marketing. The Alliance Pipeline involves the development, ownership and operation of a mainline gas pipeline (with various connecting lateral pipelines) from Northeastern British Columbia to points near Chicago, Illinois. The Aux Sable Plant involves the ownership and operation of a natural gas liquids extraction and fractionation facility near the terminus of the Alliance Pipeline. Alliance Canada Marketing holds long-term transportation capacity on the Alliance Pipeline.

These financial statements have been prepared by the management of Fort Chicago Energy Management Ltd. (the "General Partner") in accordance with accounting principles generally accepted in Canada. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period.

Note 3

Summary of Significant Accounting Policies of the Partnership

Investments

The Partnership's interest in the Alliance projects is accounted for using the equity method, whereby the investment is recorded at the original cost plus the Partnership's share of income or loss less any distributions received. For the year ended December 31, 2002, the Partnership recorded \$43.7 million (2001 – \$34.1 million) as its share of the income of the Alliance projects.

Foreign Currency Translation

The Partnership follows the current rate method of foreign currency translation that requires that all asset and liability amounts be translated into Canadian dollars using the exchange rate in effect at the balance sheet date, and requires that all revenues and expenses be translated at average exchange rates for the period. The resulting net cumulative translation gain or loss is reported as a separate component of Partners' equity.

Income Taxes

As the Partnership is not a taxable entity, all income for tax purposes is allocated to the partners each year and, therefore, no tax expense is reflected in these financial statements in respect of the Partnership. Certain subsidiary partnerships are taxable in the U.S. and tax expense has been recorded for U.S. tax liabilities. A subsidiary corporation is taxable in Canada and federal and provincial capital taxes have been reflected in the financial statements.

Cash and Short-term Investments

Cash and short-term investments comprise cash and highly liquid investments of less than 90 days to maturity valued at market.

Note 4

Change in Accounting Policy

Effective January 1, 2002, the Partnership adopted, retroactively with restatement of prior periods, the Canadian Institute of Chartered Accountants standard regarding foreign currency translation. As a result of the standard, Fort Chicago's U.S. dollar denominated debt continued to be remeasured, however, the previously deferred foreign exchange loss was charged to the Consolidated Statement of Income and Undistributed Income as follows:

Deferred loss as at December 31, 2000	\$	(1,133)
Quarter ended March 31, 2001		(3,684)
Quarter ended June 30, 2001		4,288
Quarter ended September 30, 2001		(3,178)
Quarter ended December 31, 2001		1,491
	\$	(2,216)

For the current year, all foreign exchange gains and losses related to Fort Chicago's U.S. dollar denominated debt are reported in the Consolidated Statement of Income and Undistributed Income.

Note 5

Investment in Alliance Projects and Significant Accounting Policies for the Alliance Projects

At various times in 1997, the Partnership acquired interests in the Alliance Pipeline and Aux Sable Plant projects. During the fourth quarter of 2002, the Partnership acquired an additional 11.1 percent interest in the Alliance Pipeline from two vendors for \$206.3 million and an additional 4.9 percent interest in the Aux Sable Plant and Alliance Canada Marketing. In connection with the Aux Sable Plant and Alliance Canada Marketing purchases, the Partnership received approximately \$3.7 million which amount represents the difference between the aggregate purchase price paid by the Partnership for the ownership interest and the payment received by the Partnership to assume an additional 4.9 percent of the support obligation relating to Alliance Canada Marketing. In addition, the Partnership has agreed to purchase an additional 1.1 percent of the Alliance Pipeline in March, 2003 for approximately \$18.2 million.

Following the completion of the deferred purchase by the Partnership, the Partnership will own approximately 38.2 percent of the Alliance Pipeline and approximately 30.9 percent of Aux Sable and Alliance Canada Marketing. The Partnership has invested the following amounts in the Alliance Pipeline, Aux Sable Plant and Alliance Canada Marketing since inception, recorded the following amounts of equity income and received the following distributions:

(\$ thousands)	Investment	Equity Income	Distributions Received or Receivable		Translation Adjustment	Total
			\$	\$		
2000 and prior	\$ 517,596	\$ 76,129	\$ -	\$ -	\$ 593,725	
2001	5,505	34,100	(67,255)		20,355	(7,295)
2002	210,996	43,702	(62,587)		(3,856)	188,255
	\$ 734,097	\$ 153,931	\$ (129,842)	\$ 16,499	\$ 774,685	

The following summarizes the combined financial information of the Alliance Pipeline, Aux Sable Plant and Alliance Canada Marketing entities:

(\$ thousands)	2002	2001
Statement of operations		
Net income for the year	\$ 159,238	\$ 132,016
Statement of financial position		
Assets		
Current assets	\$ 624,168	\$ 490,831
Long-term assets	6,000,303	6,189,336
Total assets	\$ 6,624,471	\$ 6,680,167
Liabilities and partners' equity		
Current liabilities	\$ 517,827	\$ 346,409
Long-term liabilities	3,659,704	3,812,537
Future income taxes	215,761	223,424
Partners' equity	2,231,179	2,297,797
Total liabilities and partners' equity	\$ 6,624,471	\$ 6,680,167

The financial statements for the entities comprising the Alliance Pipeline have been prepared utilizing the following significant accounting policies:

Capital Assets

Pipeline in service, including pipeline linepack and the allowance for funds used during construction, is recorded at cost and is being depreciated on a four percent per annum straight-line basis commencing from the in-service date. General plant assets, consisting of field offices and ancillary equipment, are recorded at cost and are being depreciated on a straight-line basis over the life of the asset with rates ranging from four to 33 percent per annum. Administrative assets, which include head office furniture and equipment, information systems and leasehold improvements, are recorded at cost and depreciated on a straight-line basis over the life of the asset with rates ranging from 10 to 33 percent per annum.

The allowance for funds used during construction ("AFUDC") represents the cost of debt and equity financing incurred during construction that is expected to be recovered in future rates. Accordingly, these costs were capitalized.

The partners are entitled to earn an after-tax rate of return of 11.3 percent in Canada and 10.7 percent in the U.S. for the equity portion of the AFUDC. The debt portion of the AFUDC is comprised of interest expense, commitment fees and credit facility financing fees incurred during construction. Interest income derived from debt-sourced funds was netted against interest expense in determining the allowance for debt funds used during construction. Interest income attributable to equity-sourced funds was included in net income in the year earned.

Removal and site restoration costs are not determinable and will be recorded when reasonably estimable.

Impairment of Capital Assets

The Partnership evaluates the capital assets for impairment when events or changes in circumstances indicate, in management's judgement, that the carrying value of such assets may not be recoverable. When such a determination has been made, management's estimate of undiscounted future cash flows attributable to the assets is compared to the carrying value of the assets to determine whether impairment has occurred. If an impairment of the carrying value has occurred, the amount of the impairment recognized in the financial statements is the amount that the carrying value exceeds the undiscounted future cash flow.

Judgements and assumptions are inherent in management's estimate of undiscounted future cash flows used to determine recoverability of an asset. The use of alternate judgements and/or assumptions could result in the recognition of different levels of impairment charges in the financial statements. No provision for impairment was recorded in 2002.

Revenue Recognition

The Alliance Pipeline transportation contracts are designed to provide the Alliance Pipeline with toll revenues sufficient to recover the costs of providing transportation service to shippers, including operating and maintenance and administrative costs and allowances for depreciation, deemed taxes, costs of indebtedness, and an allowed return on equity. The portion of such costs expected to be recovered each year under the existing transportation contracts is equal to the percentage of the firm transportation capacity held under such contracts. At December 31, 2002, 100 percent (2001 – 100 percent) of the firm capacity was contracted under firm-service transportation service agreements ending in 2015.

The period in which costs are recovered from toll receipts may differ from the period that these costs are expensed in the financial statements. Transportation revenues include amounts related to expenses in the financial statements that are expected to be recovered from shippers in future tolls. Similarly, no revenue is recognized in a given period for tolls received that do not relate to current period expenses per these financial statements. Differences between the recorded transportation revenue and actual toll receipts give rise to receivable or payable balances.

Deferred Financing Charges

All costs directly associated with arranging Alliance's long-term Senior Notes are capitalized as deferred financing charges and amortized over the life of the related debt using the effective interest rate method. Prior to the commencement of commercial operations, amortization of deferred financing charges was included as a component of the allowance for debt funds used during construction.

Shipper Imbalances

The Alliance Pipeline may experience slight physical imbalances between the volume of gas received from its shippers, and the volume of gas delivered to downstream interconnects, which affects the volume of the Alliance Pipeline linepack, the cost of which is included in capital assets. Shippers are obligated to rectify these imbalances in short order by arranging for the necessary physical delivery of natural gas at the pipeline receipt points or at the downstream interconnects. Accordingly, no receivables or payables balances related to shipper imbalances were recognized in the financial statements.

The financial statements for the Aux Sable Plant and Alliance Canada Marketing entities have been prepared utilizing the following significant accounting policies:

Property, Plant and Equipment

Property, plant and equipment are recorded at cost and include costs directly associated with the design and construction of the plant and related support facilities. Depreciation of the plant assets commenced on December 1, 2000 and is provided on a straight-line basis over the estimated useful life of the plant of 30 years. Assets under capital lease are amortized on a straight-line basis over their estimated useful lives of 30 years. Administrative and other assets are depreciated on a straight-line basis over their estimated useful lives ranging from three to five years.

Impairment of Property, Plant and Equipment

The Partnership evaluates the property, plant and equipment for impairment when events or changes in circumstances indicate, in management's judgement, that the carrying value of such assets may not be recoverable. When such a determination has been made, management's estimate of undiscounted future cash flows attributable to the assets is compared to the carrying value of the assets to determine whether an impairment has occurred. If an impairment of the carrying value has occurred, the amount of the impairment recognized in the financial statements is the amount that the carrying value exceeds the undiscounted future cash flow.

Judgements and assumptions are inherent in management's estimate of undiscounted future cash flows used to determine recoverability of an asset. The use of alternate judgements and/or assumptions could result in the recognition of different levels of impairment charges in the financial statements. No provision for impairment was recorded in 2002.

Inventories

The valuation of NGL inventory is based on the lower of average cost or market as determined by closing market prices at December 31, 2002. Inventory of plant spare parts is recorded at the lower of cost and replacement cost.

NGL Sales Revenue

Revenues from the sale of NGL products are recognized on the date of product delivery. Revenues on exchange contracts are recognized on the date the exchanged product delivery occurs. Exchanged products are recorded as inventory until such time.

The Aux Sable Plant has completed two years of operation and has not yet achieved profitable operations or a positive cash flow from operations. Accordingly, it is dependent upon its partners, including Fort Chicago, to support any cash flow shortfalls and to meet its current debt repayment obligations.

Note 6 Partners' Equity

(a) Partners' Capital Account

(i) AUTHORIZED

The Partnership is authorized to issue an unlimited number of Class A limited partnership units and one Class B limited partnership unit.

(ii) ISSUED

	Class A Units	
	Number	Value
		(\$ thousands)
December 31, 2000	71,843,054	\$ 424,876
Eligible Optionholder Warrants	1,226,455	7,297
Warrants (Note 6(e))	206,250	1,645
Issue costs	–	(32)
December 31, 2001	73,275,759	433,786
Warrants – Cash (Note 6(e))	288,750	1,920
– Initial value	–	380
Distribution Reinvestment Plan	808,164	6,274
Issue costs	–	(358)
December 31, 2002	74,372,673	442,002
Units to be issued under Distribution Reinvestment Plan	136,186	1,065
	74,508,859	\$ 443,067

(b) Distributions

The Partnership has declared and paid the following distribution to holders of Class A Units:

Record Date	Payment Date	Distribution per Class A Unit	Distributions Paid/Payable in Cash		Distribution Paid in Units	Total Distribution Paid/Payable	
			(\$ thousands)	(\$ thousands)		(\$ thousands)	
2001							
March 30, 2001	April 30, 2001	\$ 0.175	\$ 12,772	\$ –	\$ 12,772		
June 29, 2001	July 31, 2001	\$ 0.160	11,725	–	11,725		
September 28, 2001	October 31, 2001	\$ 0.160	11,725	–	11,725		
December 31, 2001	January 31, 2002	\$ 0.175	12,823	–	12,823		
		\$ 0.670	\$ 49,045	\$ –	\$ 49,045		
2002							
March 28, 2002	April 30, 2002	\$ 0.160	\$ 11,770	\$ –	\$ 11,770		
June 28, 2002	July 31, 2002	\$ 0.160	9,342	2,429	11,771		
September 30, 2002	October 31, 2002	\$ 0.160	7,975	3,845	11,820		
December 31, 2002	January 31, 2003	\$ 0.180	12,322	1,065	13,387		
		\$ 0.660	\$ 41,409	\$ 7,339	\$ 48,748		

(c) Ownership Restrictions

The Partnership was organized in accordance with the terms and conditions of a limited partnership agreement dated as of October 9, 1997 as amended and restated on November 21, 1997 and as further amended on March 7, 2001 (the "Partnership Agreement"). The Partnership Agreement provides that no Class A Units may be transferred to a person who is a "non-resident" of Canada, a person in which an interest would be a "tax shelter investment" or a partnership which is not a "Canadian partnership" for purposes of the *Income Tax Act* (Canada).

(d) Unitholders Rights Plan

The Partnership has a unitholders rights plan (the "Plan"). Under the Plan, one right will be issued with each Class A Unit issued. The rights remain attached to the Class A Units and are not exercisable or separable unless one or more certain specified events occur. If a person or group acting in concert acquires 20 percent or more of the outstanding Class A Units (subject to certain exceptions), the rights will entitle the holders thereof (other than the acquiring person or group) to purchase Class A Units of the Partnership at a 50 percent discount from the then market price. The rights are not triggered by a "Permitted Bid," as defined in the Plan.

(e) Warrants

In conjunction with the arrangement of certain credit facilities in 1998, the Partnership issued 495,000 warrants. Each warrant entitles the holder thereof to acquire one Class A Unit at a price of \$6.65. Each warrant expired on March 6, 2002. In 1998, the Partnership recognized \$653,400 as the value of these warrants. During 2002, 288,750 (2001 – 206,250) warrants were exercised for proceeds of \$1.9 million (2001 – \$1.4 million).

Note 7

Deferred Expenses

(\$ thousands)	2002	2001
Financing expenses – long-term debt ⁽¹⁾	\$ 1,043	\$ 1,185
Financing expenses – short-term debt ⁽²⁾	1,739	158
Construction period unit appreciation rights ⁽³⁾	2,446	2,751
Other	300	337
	\$ 5,528	\$ 4,431

(1) Amortized over the life of the related debt, being generally 10 years.

(2) Amortized over the life of the related debt, being one year.

(3) Amortized over 10 years commencing January 1, 2001.

Note 8

Senior Notes

On August 15, 2001, the Partnership, via two subsidiary entities, issued senior unsecured notes to institutional investors in the United States.

The Senior Notes, Series A issued by Fort Chicago Pipeline II U.S. L.P. in the aggregate principal amount of U.S. \$37,500,000 bear interest at the rate of 7.71 percent per annum, pay interest and principal quarterly in arrears and mature on July 31, 2011. Principal is repaid U.S. \$375,000 per quarter and U.S. \$22,875,000 at maturity.

The Senior Notes, Series B issued by Fort Chicago Pipelines (Canada) Ltd. in the aggregate principal amount of U.S. \$37,500,000 bear interest at the rate of 7.71 percent per annum, pay interest and principal quarterly in arrears and mature on July 31, 2011. Principal is repaid U.S. \$375,000 per quarter and U.S. \$22,875,000 at maturity.

Each series of notes are direct unsecured obligations of the relevant issuer and rank *pari passu* with all other unsecured and unsubordinated indebtedness of that issuer.

Each issuer has provided covenants customary for note issuances that include, among other things, the following: (i) each issuer will not, at any time, permit consolidated indebtedness to be more than 50 percent of consolidated capitalization, and (ii) each issuer will not permit the ratio of operating cash flow to interest expense to be less than 3.00 to 1.00 at the end of each fiscal quarter of such issuer. Such financial covenants are calculated for each issuer and not at the Partnership level.

Each issuer has given the note purchasers a negative pledge not to encumber any of its assets except for permitted encumbrances and has agreed that in the event it sells any portion of its interest in Alliance Pipeline L.P. or Alliance Pipeline Limited Partnership, as applicable, prior to maturity of its notes to redeem such notes at that time to the extent of the proceeds of such sale plus a make-whole amount and any unpaid and accrued interest thereon.

Each issuer may redeem all or any (subject to a minimum of 10 percent of the aggregate principal amount outstanding) of its notes at any time prior to maturity at par plus a make-whole payment and any accrued and unpaid interest on the redeemed amount.

Future minimum principal repayments required in total on the Series A and Series B Senior Notes expressed in Canadian dollars (based on the exchange rate at December 31, 2002) over the next five years and thereafter are as follows:

(\$ thousands)	
2003	\$ 4,739
2004	4,739
2005	4,739
2006	4,739
2007	4,739
thereafter	88,852
	\$ 112,547

Note 9

Bank Credit Facilities

On October 28, 2002, the Partnership entered into an amended and restated credit agreement (the "Credit Agreement") with three Canadian chartered banks to provide for a Canadian \$50 million extendible revolving credit facility (the "Revolving Credit Facility") and a Canadian \$250 million acquisition bridge facility (the "Bridge Credit Facility"). The initial proceeds from borrowings under the Bridge Credit Facility were utilized to purchase through subsidiaries of the Partnership additional interests in Alliance and Aux Sable. The Bridge Credit Facility is available until and matures on October 28, 2003.

For the purpose of providing continuing collateral security for the indebtedness and obligations of Fort Chicago under the Revolving Credit Facility and under the Bridge Credit Facility, certain direct or indirect subsidiary corporations and partnerships of the Partnership have delivered a guarantee and negative pledge to the lenders thereunder. Pursuant to the terms and conditions relating to the Bridge Credit Facility, if the Bridge Credit Facility is not repaid by April 28, 2003, each of Fort Chicago Pipeline Canadian Limited Partnership and Fort Chicago Pipeline Canadian Pipeline L.P. are required to execute and deliver, as continuing security for such guarantee, a security agreement granting a security interest in, as applicable, all of the issued and outstanding shares of Fort Chicago Pipelines (Canada) Ltd. and all of the limited partner interests in Fort Chicago Pipeline II U.S. L.P.

The interest rates on outstanding debt under the Credit Agreement are variable, including in relation to the prime interest rate of the agent lenders. The Partnership has agreed to pay standby and letter of credit fees varying from 0.6 percent to 1.325 percent per annum of the undrawn facilities and any letters of credit issued under the credit facilities and availability fees of 0.25 percent on any amounts outstanding under the Bridge Credit Facility at April 28, 2003 and July 28, 2003, respectively. The Partnership has provided covenants in the Credit Agreement customary to bank credit facilities that include, among other things, (i) the maintenance of consolidated tangible net worth of at least \$375 million, subject to downward adjustment for certain events, and (ii) the maintenance of debt to total capitalization of no greater than 50 percent.

As at December 31, 2002, the Partnership had borrowings of Canadian \$110.0 million and U.S. \$58.5 million outstanding under the Bridge Credit Facility. In January, 2003, the Partnership made a payment under the Bridge Credit Facility of Canadian \$54.0 million and U.S. \$58.5 million from the proceeds of the convertible debentures described in Note 13(a) below. The Bridge Credit Facility was permanently reduced by the amount of such repayment. For disclosure purposes, the Partnership has included \$143.4 million of the Bridge Credit Facility under Non-current liabilities as it approximates the amount received from the convertible debentures described in Note 13(a) below.

The Revolving Credit Facility matures on March 5, 2003, but may be extended from time to time for additional 364-day periods with the approval of the lenders. The lenders have agreed to renew the Revolving Credit Facility for a further 364-day period to March 3, 2004.

As at December 31, 2002, the Partnership had issued letters of credit of Canadian \$11.3 million and U.S. \$7.4 million under the Revolving Credit Facility (see Note 11 below).

Note 10

Unit Appreciation Rights Cash Bonus Plan

Year of Grant	Number of Units	Exercise Price	Expiry	Vested	Value
					(\$ thousands)
As at December 31, 2002					
2000	40,000	\$ 7.80	December 31, 2003	40,000	\$ 18
2001	537,500	\$ 9.29	March 7, 2006	358,333	—
2002	125,000	\$ 8.24	December 12, 2007	41,667	1
	702,500	\$ 8.44		440,000	\$ 19
As at December 31, 2001					
2000	40,000	\$ 7.80	December 31, 2003	40,000	\$ 48
2001	537,500	\$ 9.29	March 7, 2006	179,167	—
	577,500	\$ 9.19		219,167	\$ 48

The vesting provisions for the unit appreciation rights issued in 2000 were as follows: 33 1/3 percent on the date of the grant; 33 1/3 percent on the in-service date of the Alliance Pipeline project which was December 1, 2000; and 33 1/3 percent on December 31, 2000. As of December 31, 2002, 100 percent of the unit appreciation rights issued in 2000 had vested.

The vesting provision for the unit appreciation rights issued in 2001 and 2002 were as follows: 33 1/3 percent on the date of grants; 33 1/3 percent on the first anniversary of the date of grants; and 33 1/3 percent on the second anniversary of the date of grants. As of December 31, 2002, 66 2/3 percent of the unit appreciation rights issued in 2001 had vested and 33 1/3 percent of the unit appreciation rights issued in 2002 had vested.

Note 11

Commitment to Alliance Projects

On December 31, 2002, the Partnership had obligations in the amount of Canadian \$11.3 million and U.S. \$7.4 million to fund its pro rata share of certain debt service reserve amounts required to be maintained in debt service reserve accounts under provisions relating to the senior debt financing for the Alliance Pipeline project and had delivered letters of credit to support such obligations.

On December 31, 2002, the Partnership had guaranteed the pro rata share of one of the Partnership's subsidiary partnerships of natural gas transportation obligations of Alliance Canada Marketing.

Note 12 **Financial Instruments**

The Partnership's financial assets and liabilities as at December 31, 2002 included cash, accounts receivable, accounts payable and bank debt. Due to the current nature of cash, accounts receivable and accounts payable, fair value of these items is considered to be equal to book value. The fair value of the Senior Notes described in Note 8 above as at December 31, 2002 was approximately Canadian \$121.8 million. The Partnership has entered into variable rate agreements for its debt financing except for the Senior Notes described in Note 8 above.

Note 13 **Subsequent Events**

(a) Convertible Debentures Offering

In January 2003, the Partnership issued \$150 million of 7.5 percent convertible unsecured subordinated debentures, Series A (the "Debentures"). The Debentures are convertible at the option of the holder at anytime into fully paid Class A Units at a conversion price of \$9.00 per Class A Unit, subject to adjustment in certain events. The Debentures pay interest semi-annually and have a maturity date of June 30, 2008. The Debentures are unsecured obligations of the Partnership and rank equally with all other unsecured and subordinated indebtedness of the Partnership. The Debentures will be classified as partners' equity for accounting purposes, and the related interest costs will be charged against undistributed income.

The net proceeds of the offering of approximately \$143.4 million were used to partially repay the Bridge Credit Facility incurred to purchase additional interests in Alliance and Aux Sable (See Note 9 above).

(b) Acquisition of additional interest in the Alliance Pipeline, Aux Sable Plant and Alliance Canada Marketing

On March 20, 2003, the Partnership announced the acquisition of an additional 11.8 percent interest in the Alliance Pipeline, Aux Sable Plant and Alliance Canada Marketing for cash consideration of approximately \$184 million. Closing of this acquisition is expected to occur in late March or early April 2003 for all except 1.1 percent of the U.S. segment of the Alliance Pipeline which will be deferred until the fourth quarter of 2003.

In connection with this acquisition, the Partnership has accepted a new underwritten acquisition bridge credit facility in the maximum principal amount of \$160 million (the "Second Bridge Credit Facility"). The Partnership anticipates utilizing the undrawn amounts under the Bridge Credit Facility and the amounts available under the Second Bridge Credit Facility to finance this latest acquisition. The terms and conditions of the Second Bridge Credit Facility are identical to the Bridge Credit Facility except the maturity date for the Second Bridge Credit Facility will be one year from the date of the signing of the definitive credit agreement related to the Second Bridge Credit Facility.

Note 14 **Commitment**

The Partnership is obligated to purchase an additional 1.1 percent interest in the Alliance Pipeline late in the first quarter of 2003 for approximately \$18.2 million. The Partnership has available undrawn capacity within its Bridge Credit Facility to fund this purchase (See Note 9 above).

General Tax Principles for Public Limited Partnerships

Fort Chicago is a publicly traded limited partnership. Unitholders are partners in the Partnership and are entitled to receive cash distributions. A partnership generally is not subject to federal or provincial income tax. The annual income gains, losses, deductions or credits of the Partnership flow through to the Unitholders who are required to report their allocated share of these amounts on their individual tax returns as though the Unitholder had incurred these items directly. The Partnership agreement allocates these amounts to Unitholders of record on March 31, June 30, September 30 and December 31 of each year ("Unitholder of Record").

In March, Unitholders of Record receive a T5013 tax form that summarize their allocated share of the Partnership's reportable tax items for the calendar year ended December 31, and certain information required to be included in their tax returns. Only the amounts shown on the T5013 should be entered on each Unitholder's tax return.

To assist Unitholders in preparing their 2002 tax return, the Partnership has prepared the following general information.

1. Who should I notify regarding a changes of address?

If you hold your units directly with Computershare Trust Company of Canada ("Computershare"), please notify Computershare directly.

For Unitholders that hold their units in a broker account, inquiries regarding change of address should be directed to the Unitholder's broker.

2. When can I expect my T5013 and Relevé 15 tax receipts?

If you hold your units directly with Computershare, the T5013 supplementary and Relevé 15 forms were mailed to Unitholders on March 7, 2003.

Brokerage firms, not Fort Chicago, are responsible for sending T5013s to individual Unitholders. Tax information is sent to the Canadian Depository for Securities Limited ("CDS") by Fort Chicago before the end of February each year. The brokerage firms then access the tax information from CDS and, according to the *Income Tax Act*, have until March 31 of the current year to mail out the T5013 supplementary forms to individual Unitholders.

3. What portion of the distributions is considered to be taxable?

For 2002, the full distribution that was paid was tax-free in the hands of the Unitholders.

4. What portion of the 2002 distributions is considered to be return of capital?

For 2002, the aggregate amount of \$0.66 per Class A Unit that was paid as quarterly distributions should reduce the cost base of the Class A Units.

5. What tax deductions have been allocated to Unitholders in 2002?

For 2002, the amount set forth on the table on the inside back cover of this report were allocated to Unitholders. Unitholders can only deduct the amounts allocated to them on a T5013 supplementary form. Tax deductions allocated to Unitholders reduce the adjusted cost base ("ACB") of the units for purposes of calculating any capital gains and losses on the sale of the Class A Units.

6. What tax deduction will be allocated to Unitholders in 2003?

At the present time, it is extremely difficult to predict the 2003 tax deduction amounts due to the volatility in the natural gas liquids extraction margin experienced by Aux Sable. The present indications are that a small loss should be allocated to Unitholders for the 2003 tax year.

7. Why is my distribution being reduced for U.S. withholding taxes?

Fort Chicago has capitalized its investments in U.S. subsidiary partnerships with a combination of debt and equity. Fort Chicago is therefore earning U.S. sourced interest income that is in turn included in your distribution cheque. U.S. tax rules require Fort Chicago to withhold U.S. taxes based on the taxable status of its Unitholders. Therefore, Canadian individual and Corporate Unitholders are subject to a 10 percent withholding tax rate and tax exempt organizations (RRSPs and pension plans) are not subject to U.S. withholding taxes. Should you be taxed at a different rate and you hold your Units directly on the register of Unitholders, you need to supply to the Partnership a completed W8-BEN or W8-IMY form. Unitholders who hold their Units in a broker account need to contact their broker and have them update their record of residency for their account.

8. What is the amount of U.S. withholding taxes that will be deducted from my distributions in 2003?

For a Canadian individual or corporation, approximately \$0.12 per Class A Unit will be considered U.S. interest income in 2003 and will therefore be subject to U.S. withholding taxes at a rate of 10 percent. The exact amount will depend on the exchange rate at the end of each quarter.

9. Are the Class A Units of Fort Chicago considered to be foreign content? What about the Convertible Debentures?

Class A Units are considered foreign property for purposes of inclusion in registered retirement savings plans, registered retirement income funds or deferred profit sharing plans.

The Convertible Debentures that were issued in early 2003 are not eligible investments for purposes of inclusion in registered retirement savings plans, registered retirement income funds or deferred profit sharing plans.

10. Can investors, other than Canadian citizens, purchase Class A Units of Fort Chicago? What about the Convertible Debentures?

Class A Units may only be held by residents of Canada. In the event that any Class A Units are acquired by a non-resident of Canada, the General Partner has the authority to take any steps necessary to ensure that such Class A Units are transferred to a resident of Canada.

The Convertible Debentures that were issued in early 2003 can be purchased by non-residents of Canada. However, they will have Canadian withholding taxes deducted from the interest payments and must meet the Canadian ownership requirements if they wish to convert their Convertible Debentures into Class A Units.

Board of Directors

Guy J. Turcotte

Calgary, Alberta

John E. Feick ⁽²⁾⁽³⁾

Calgary, Alberta

Verne G. Johnson ⁽¹⁾⁽²⁾⁽³⁾

Calgary, Alberta

Arthur V. Mauro ⁽¹⁾⁽³⁾

Winnipeg, Manitoba

Stephen W.C. Mulherin ⁽¹⁾⁽²⁾⁽³⁾

Calgary, Alberta

Stephen H. White

Calgary, Alberta

G. Allan MacKenzie ⁽³⁾⁽⁴⁾

Winnipeg, Manitoba

David J. Drybrough ⁽⁵⁾

Winnipeg, Manitoba

(1) Member of the Audit Committee

(2) Member of the Compensation Committee

(3) Member of the Corporate Governance Committee

(4) Not standing for re-election

(5) Nominee

Officers

Guy J. Turcotte

Chairman

Stephen H. White

President and Chief Executive Officer

Renée M. Ratke

Secretary, Partner, Bennett Jones LLP

Head Office

Fort Chicago Energy Partners L.P.

2400, 440 – 2nd Avenue S.W.

Calgary, Alberta T2P 5E9

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Fax: (403) 234-9156

*Effective June 1, 2003, our new address is
Suite 2150, 300 – 5th Avenue S.W.,
Calgary, Alberta T2P 3C4.*

Investor Relations

Contact:

Pam Thomson, Executive Assistant

Email: pthomson@fortchicago.com

Auditors

PricewaterhouseCoopers LLP

Calgary, Alberta

Solicitors

Bennett Jones LLP

Calgary, Alberta

Bankers

The Toronto-Dominion Bank

Calgary, Alberta

Bank of Nova Scotia

Calgary, Alberta

Canadian Imperial Bank of Commerce

Calgary, Alberta

Transfer Agent and Registrar

Computershare Trust Company

of Canada

*Vancouver, Calgary, Winnipeg,
Montreal, Toronto*

Stock Exchange Listing

The Toronto Stock Exchange

Class A Units

Trading Symbol: FCE.UN

Convertible Debentures Series A

Trading Symbol: FCE.DB.A

Notice of Annual Meeting

The Annual Meeting of Unitholders will be held on May 13, 2003 at 4:00 p.m. at the Metropolitan Centre in the Strand/Tivoli Room, 333 – 4th Avenue S.W., Calgary, Alberta. All Unitholders are encouraged to attend.

2002 Income Tax Information

Allocated to Class A Unitholders as of

	Total 2002	March 28	June 28	September 30	December 31	Total
Net income (loss)						
Business income (loss)	\$ (29,533,243)	\$ (0.097552)	\$ (0.096197)	\$ (0.095834)	\$ (0.110260)	\$ (0.399844)
Foreign interest income	4,169,078	0.011355	0.010000	0.010000	0.025000	0.056355
	\$ (25,364,165)	\$ (0.086197)	\$ (0.086197)	\$ (0.085834)	\$ (0.085260)	\$ (0.343488)
Capital cost allowance	\$ 52,469,757	\$ 0.178312	\$ 0.178312	\$ 0.177561	\$ 0.176374	\$ 0.710559
Charitable donations	\$ 160,708	\$ 0.000055	\$ 0.000546	\$ 0.000544	\$ 0.000540	\$ 0.001685

The net income (loss) amount includes an allocation of foreign interest income of \$0.056355 per Unit to Unitholders. This amount was subject to U.S. withholding taxes. The rate of withholding varied with the Unitholder's particular circumstances and Unitholders may be able to claim a foreign tax credit for the amount reported on their T5013 supplementary.



Fort Chicago Energy Partners L.P.
www.fortchicago.com